TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/SR.403
9 March 1970

ENGLISH
ORIGINAL: FRENCH

[illegible]

[illegible]

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PROCEDURAL MATTERS (agenda item 1) (continued):

(a) ADOPTION OF THE AGENDA AND ORGANIZATION OF THE WORK OF THE SESSION (continued) (TD/B/L.96)

1. The PRESIDENT suggested that the Board should establish a President's Contact Group to deal with any unresolved issues which might arise from the consideration of items 3, 5 and 4 either in the Committee of the Whole or in the Working Group. Following UNCTAD practice, the Group might be composed of 19 members, nine from the Group of 77, six from Group B, three from Group D and one from China.

2. It was so decided.

PURSUANT TO CONFERENCE RESOLUTION 94 (IV), REVIEW OF ACTIONS CONCERNING THE INDEBTEDNESS OF DEVELOPING COUNTRIES, IN PARTICULAR, THE DESCRIBING OF FEATURES WHICH COULD PROVIDE GUIDANCE IN OPERATIONS RELATING TO DEBT PROBLEMS (agenda item 2) (continued) (TD/B/695 and Corr.1) (S ONLY), TD/B/695/Add.1 and Corr.1 (S ONLY) and Add.2-5, TD/B/690; TD/B/697, TD/B/697; TD/AC.2/9 and Corr.1 (S ONLY); TD/B/WG.1/30)

CONSIDERATION OF PROPOSALS MADE BY DEVELOPING COUNTRIES AND OF OTHER VIEWS EXPRESSED AT THE FIRST AND SECOND SESSIONS OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE INTERNATIONAL INDEBTEDNESS OF DEVELOPING COUNTRIES AS REFERRED TO IN DOCUMENT TD/B/575 AND TD/B/575 and Add.1-3 (agenda item 5) (continued) (TD/B/690, TD/B/697, TD/B/697; UNCTAD/GA/1030)

CONSIDERATION OF DRAFT RESOLUTION (A) (XVII) RELATING TO DEBT PROBLEMS, DEVELOPING ISLAND AND LAND-LOCKED DEVELOPING COUNTRIES (agenda item 4) (continued) (TD/B/691 and Add.1, TD/B/690, TD/B/697, TD/B/697)

3. Mr. MWAGHOGA (Kenya), speaking as President of the Conference at its fourth session, said that the question of external indebtedness of developing countries had been one of the main issues before the Conference in Nairobi in May 1976. In spite of intense negotiations, a full consensus had not been reached, but the Conference had nevertheless succeeded in adopting resolution 94 (IV), which had established a certain understanding or framework for the treatment of debt problems of developing countries. While the framework was not a fully adequate one and did not answer the needs of the developing countries, the resolution had encouraged useful international discussions at the Conference on International Economic Co-operation (CIEC) and had led to the present meetings of the Board at ministerial level.

4. [illegible] both as President of the Conference and as representative of a developing country, he attached considerable importance to a successful outcome of the present deliberations. He had noticed with growing concern over the last two years how a series of negotiations on ways of improving international economic relations seemed to have petered out. It was sometimes said that there was a lack of political will on one side or the other. That might be so, but it would be unwise to conclude that those failures were not failures for UNCTAD as an institution or for the core issues of development. Not for the International community as a whole which had not so far been able to galvanize itself to the vigorous and urgent economic problem before it in the co-operative effort required for their solution. A successful outcome would, of course, strengthen the institutional effectiveness of UNCTAD as a forum for vital international negotiations. However, what was far more important was that a successful outcome would signal the beginning of a purposive and imaginative movement to demonstrate the collective will of the International community to embrace the universal dimension and start a process leading to the establishment of a global economy that was more viable, equitable and stable.

11. She had been particularly struck by the words used by the representative of Zaire, speaking on behalf of the Group of 77, when he had pointed to the role which the developing countries must play in "contributing to the maintenance of aggregate demand which could facilitate stable growth in the world economy, including that of the developed countries."

12. That, it seemed to her, was a common interest and aim upon which all could agree. Indeed, in the present depressed state of the world economy, it would be foolish and absurd if countries failed to recognize their economic interdependence. The countries of the Group of 77 represented more than half of the world's population. An increase in their effective demand was a crucial factor in the revival of the economies of the industrialized countries and the economic recovery of those countries was the key factor in the prospects for economic and social development of the countries of the third world.

13. It was important to understand fully why the debt problems of the developing countries had assumed such prominence in the last few years. In the first place, the great increase in oil prices in 1973 and 1974, while it had affected all, had had a particular impact on many countries with a very high degree of dependence upon imported energy. For many third world countries increased energy prices were an acute strain on their resources. Secondly, the fluctuation in the prices of a number of key commodities had affected all countries in different ways. For industrialized countries such as the United Kingdom, it had added to the problems of controlling inflation; for some developing countries, heavily dependent upon the export of one, two or perhaps three primary products, the sharp price fluctuations had caused very grave problems in development planning and in pursuing policies of investment for economic growth. Thirdly, many developing countries had borrowed on a substantial scale to avoid a sharp adjustment which would have harmed their rate of development.

14. However, the world recession was continuing. Price fluctuations were continuing, the world's economic problems persisted and development plans were threatened for some of the third world countries. One or two faced the prospect of moving not merely into nil growth, but into negative growth. Clearly such a situation concerned all countries, as they recognized their interdependence and the need for effective international co-operation.

15. There were at present persistent financial surpluses in a number of countries, which in some cases had indirectly become major providers of capital to the non-oil-producing developing countries. Those surpluses were matched by counterpart deficits in other countries, both developing and developed; they represented an effort to continue planned growth and development. The consequences would be serious for the world as a whole if all deficit countries simultaneously cut back their growth in an attempt to balance their payments.

16. The main channel for most of the resources represented by the payments surplus of certain countries had been, and continued to be, the commercial banking system. Some of the "surplus" countries had provided flows directly and in generous amounts. Other resources had been made available through the international financial institutions, in particular the International Monetary Fund (IMF) and the World Bank (IBRD). It was of the utmost importance to all countries that those flows should be expanded by the activation, as soon as

possible, of the Witteveen facility and then by an expansion of IBRD's capital to support an increase of lending in real terms sufficient to meet the need. Her Government was ready to play its part in that effort, as it had done in the past. However, it was the banking system which had taken the main strain of coping with the surpluses and its effectiveness must be reinforced to enable it to carry out its task in the future.

17. A way also had to be found of dealing with the problems of those countries whose development was limited by their debt-servicing difficulties. There were two problems to the concept of generalized debt relief. First, it would be likely to create, in the commercial banks, very considerable hesitation about future lending possibilities. Second, the responsibilities of donor Governments could not include that of subsidizing repayment of the debts owed to non-official, non-governmental, private and commercial organizations. On both those counts, therefore, generalized debt relief would raise acute and insoluble difficulties.

18. Her Government believed that it was in the interest of all countries - developed and developing alike - to recognize the importance of strengthening the present arrangements for channelling persistent surpluses to deficit countries, to strengthen them by increasing the resources available to the international financial institutions, and to support arrangements for international action to deal with individual cases of imminent or actual default. It was, in its view, vital to respond quickly and sympathetically to the needs of those who found themselves in serious difficulties for the reasons she had outlined and which all understood. Words were useful, but action was what mattered.

19. Her Government also wished to play its part in laying the foundations of a more systematic approach to the very difficult problems experienced by the poorest countries. It hoped that the proposals put forward by the European Economic Community and the United States of America would lead to a positive outcome of the Board's present deliberations. The second part of those proposals expounded, in a systematic way, the idea of a consortium or consultative group approach to the development problems of the poorest countries. Endorsement of those proposals by the Board would be a real step forward in international understanding and would provide for the countries concerned solid and useful assurances of a sympathetic response to their particular problems.

20. Some individual cases would, of course, require special assistance. However, the Board's objective at present was to see what measure of agreement could be reached on a general and more systematic approach. She hoped that an agreement could be achieved. The documents before the Board indicated that the concern of the Group B countries was real and that a meeting of minds was possible.

21. However, another consideration, defined variously as "retrospective terms harmonization", "retrospective terms adjustment" and "ex post terms correction", had emerged during the Board's present deliberations. For her that was a separate issue from the discussion of the debt problems of [illegible]; however, it was intrinsic to any useful analysis of the development problems of the poorest countries.

It would be essentially an aid policy measure and the issue involved was the consistency or inconsistency of seeking interest on and repayment of past loans made to poorer countries at a time when terms for development assistance had been considerably harder than in recent years. There had been a significant evolution of thinking in that respect, which should be noted.

22. Her own Government's approach was determined by the established principles and practices governing its policies for the transfer of resources through aid. Priority was given to the poorest countries and poorest peoples. For some three years, the United Kingdom's aid to the poorest countries (the least developed and others with a 1976 GNP per capita of up to $220) had been provided entirely on grant terms; 81 per cent of its aid was entirely on grant terms and, overall, its grant element in 1976 had been 97.6 per cent. Thus, the United Kingdom now provided all its development assistance to poorer countries entirely on grant terms. Her Government was sympathetic to the concept of adjusting the terms of outstanding aid loans to some or all of the poorer countries. It was considering the entire question in a positive manner and would be pursuing it as a matter of urgency after the present session of the Board. She was confident that the industrialized countries would continue to examine the problem constructively.

23. She was also sure that it would be possible for the Board to produce a positive and constructive statement in the course of the present meetings and she believed that was the hope and intention of all.

24. Mr. OUTERS (Belgium) said that the north-south dialogue had become one of the major features of international politics and the countries of the world were engaged in the long-term process of organizing interdependence and co-operation among the regions and among the various groupings of countries. The present meetings of the Board - the first to be held at the Ministerial level - were one element in a series of meetings which were tracing the path of international co-operation, their specific purpose being to tackle the problem of the indebtedness of the developing countries and the problems of the least developed countries.

25. As a member of the European Economic Community, Belgium fully supported the Community's position as presented by the representative of Denmark. His delegation therefore endorsed the realistic and constructive approach contained in the joint EEC/United States proposals, which offered a general framework for a case-by-case examination of indebtedness situations. That approach would enable debtor countries both to honour their international commitments and to pursue their development objectives.

26. The proposals aimed to bring out the fact that external debt was not negative per se but could also reflect a country's capacity to attract external financial help in attaining its development objectives. There were also, however, situations, whether transient or structural, in which debt-servicing was a burden that damaged a country's capacity to pursue its development. In those circumstances, it became incumbent upon the creditor countries to adapt the terms of their contributions to the situations of the beneficiary countries. That was particularly true in the case of the least developed countries, to which assistance should be given on very favourable terms.

25. He had found himself in agreement with much of the statement made at the 880th meeting by the spokesman for the Group of 77. Like the Group of 77, his Government recognized that questions of indebtedness should not be looked upon in isolation but rather as forming part of the more general global problem of interdependence in the field of economic policies, balance of payments relations, energy prices and trade policies. Indebtedness could be a symptom of existing imbalances and thus gave rise to further disturbances in international economic relations. Consequently, attention should be focused not only on remedial measures but also on preventive measures such as improved policies for balance-of-payments adjustment, more effective control of inflation and attempts to restrain the escalation of protective measures.

26. In that connexion, he had taken note of the observation by the spokesman for the Group of 77 that developing countries had had to reduce their imports because a disproportionate amount of their external resources were needed to service outstanding official debt. Such import reductions could obviously have grave consequences for the exports of the industrialized countries. Nevertheless, the problem of restructuring the productive capacities of the developed countries should not be under-estimated.

27. With respect to the remedial measures suggested for the Board's consideration, his Government fully endorsed the ECE/United States proposal on textiles which could provide guidance in future debt operations and the idea of *ex post* correction of terms. The proposal offered far more advantages, both qualitative and quantitative, to the developing countries than any of the short-term approaches hitherto discussed.

28. Since, however, those guidelines would take some time to become operational, his Government had made some special efforts to help those developing countries which were in serious economic straits, including both an increased volume of official development assistance on highly concessional terms and specific debt-relief measures. In the preceding three years, it had cancelled debt-service payments on its outstanding official loans in respect of the least developed and most seriously affected countries.

29. Being well aware, however, that larger-scale operations were required in order to produce a substantial impact, his Government had initiated some proposals within OECD and in Group B, including an *ex post* correction of terms on outstanding official loans, in which connexion it had noted with great interest the ideas put forward by the Secretary-General of UNCTAD.

30. Mr. GOKCE (Turkey) said that one of the international community's most pressing concerns had long been the growing welfare gap between the developing and the industrialized countries of the world. The gap could obviously be narrowed if the former countries attained higher rates of economic growth but, to enable them to maintain such rates, they would need increasingly to resort to external borrowing, since it was difficult to convert domestic savings into foreign exchange.

41. Recent world economic events had increased both the need for and the cost of foreign exchange flows to the developing countries and had aggravated the difficulties caused by external indebtedness. Recent estimates of the long-term public debt of the least developed country ranged from $1 billion to $190 billion, and it was clear from the dimensions of the developing countries' external indebtedness had grown to such an extent that debt servicing was making inroads into their import capacities and undermining their ability to reach even minimum development targets.

42. In those circumstances, the external debt situation of the developing countries called for both urgent remedial action and effective solutions and it was therefore highly desirable that positive results should be achieved at the present session of the Trade and Development Board.

43. The most severe problems were being experienced by those countries which had not reached the necessary level of development to carry their accumulated debts. In that connexion, his delegation took the view that the least developed, land-locked and island developing countries should be given generalized, immediate and across-the-board relief by the conversion of their official debts into grants. The same treatment should be extended to other most seriously affected countries or, at the very least, their official debts should be recomputed on IDA terms. The possibilities of provision of official debt relief to the developing countries concerned by developed market-economy countries should also be seriously considered and thoroughly explored. One solution might be a rescheduling facility for converting short-term debt into debt with a more balanced maturity structure. In that connexion, it should be remembered that, in recent years, official resource flows had not only failed to reach the overall international target of .7 per cent of GNP, but had actually declined. An effort should be made to correct that trend.

44. His Government fully shared the view, however, that official debts should be distinguished from commercial debts. It endorsed the proposal that the Secretary-General of UNCTAD should be authorized to convene an intergovernmental group of experts to examine the commercial indebtedness of developing countries and the possibility of establishing financial intermediaries schemes to facilitate the rescheduling and refinancing of their commercial debts.

45. With regard to future debt reorganization, his delegation recognized the need to establish an internationally accepted policy framework to provide a more stable financial relationship between creditor and debtor countries. It therefore favoured the suggestion that the Board should endorse the establishment of guidelines for such a framework and should call for an intergovernmental group of experts to work out the details.

46. While it recognized that there was no panacea for the debt problem and that many efforts would have to be combined, his delegation urged the Board to endeavour to achieve some tangible results at its present session.

47. Mr. STOLTENBERG (Norway) said that the statements made at the present session appeared to indicate that the time was ripe for reaching agreement in a number of areas, some of which had been suggested by the spokesman for the Group of 77 and by the Secretary-General of UNCTAD. It had been clearly recognized in all the statements that the heavy debt-service commitments of many developing countries were adversely affecting their economic performance. That was particularly true of the poorer developing countries, for which indebtedness constituted a serious obstacle to development. However, there now seemed to be a political will among the developed countries to take action to improve the situation and among the developing countries to accept compromise solutions.

48. There appeared to be a wide measure of agreement on two questions: the need for common features in guidance for individual countries facing debt-servicing difficulties and the need for immediate relief measures in favour of the poorer countries in order to ensure their continued development. With regard to the first question, debtor and creditor countries alike had an obligation to safeguard their own legitimate interests. During the Conference on International Economic Co-operation (CIEC) constructive proposals had been submitted by both the developing and the developed countries. In his opinion, those proposals, together with the document on the subject submitted by the Secretary-General of UNCTAD, should be given further consideration with a view to establishing common norms. As suggested by the Secretary-General, a working group might be set up for that purpose and instructed to report on the results of its work at the fifth session of the Conference. For that purpose, however, the Board must reach agreement at the present session on principles and objectives which might form part of the mandate of such a group.

49. With regard to immediate relief measures for the poorer countries, there was a growing awareness that those countries were facing a difficult development situation which made even low levels of indebtedness burdensome. A large number of donor countries were now prepared to take special efforts to support and strengthen the development of the poorer countries. However, a number of creditor countries had set out foreign-policy considerations and internal procedures which had to be taken into account. Consequently, flexibility must be exercised with regard to the form of support given and the group of countries which might benefit from such support. Due account must also be taken of the particular development needs of recipient countries.

50. All the forms of support suggested at the present session would have the effect of strengthening the economic performance of the recipient countries. The most obvious form would be direct cancellation of ODA debts, a step which had already been taken by several donor countries and which, for the reasons he had mentioned, might present difficulties for other countries. The Swedish delegation had suggested that donor countries might accept "equivalent measures", such as increased transfer of resources in the form of grants or on highly concessional terms. An alternative suggestion was the so-called "retroactive terms correction", in other words, correction of the terms of loans or credits extended in the past in order to improve the concessionality of the aid. Each creditor country should decide individually which form its support should take and which countries should be the beneficiaries.

55. At the same time, his Government viewed with deep concern a growing trend towards international protectionism, which created more difficulties than it solved. It destroyed the proven system of the freest possible exchange of goods within the international community and was fraught with long-term dangers and disadvantages.

56. To commodity-exporting developing countries the stability of export earnings was of great importance. In his view, stabilizing such earnings was a suitable remedy since it could be fitted into the overall framework of a world economy based on the greatest possible degree of freedom and could be tailored to a country's individual needs. In exploring ways and means of stabilizing export earnings, priority should be given to the least developed countries. In that connexion, his Government would keep its promise to participate to the best of its ability in adequate international commodity agreements and in the establishment of a common fund.

57. Interdependence was a keyword in discussion of the debt problem. All countries were linked in many different ways and directions, and no country or group of countries should seek to divest itself of its share of common responsibility. Interdependence applied to the debt problem in the same way as it applied to trade in commodities and manufactures, the opening of markets, access to raw materials, energy and private investments.

58. Unquestionably, the development prospects of many developing countries had been seriously affected by the increases in the prices of oil. It was therefore incumbent on the oil-exporting countries to extend special assistance to the most seriously affected countries. His Government was strengthened in the conviction that more help should be given to the poorest countries by the fact that people in the country were making increasing personal contributions to the fight against hunger and poverty in the world through the Bread for the Poor and the Freedom from Hunger Campaign.

59. The economic progress of the Netherlands was, of course, largely dependent on economic developments in the industrial countries. In addressing to its own economic problems, his Government was not only guided by a sense of obligation to contribute towards an appropriate solution of the debt problem and other economic problems. On the contrary, through its foreign trade and payments policy and its general economic policy, which was aimed at stability and growth, his Government was fulfilling, and would continue to fulfil, its responsibility in relation to the world economy. The developing countries had been among the beneficiaries of that policy.

60. In 1975 his country's GNP per capita had increased by more than 50 per cent in real terms. His Government would continue its efforts to promote the development of the third world, and in particular that of the poorest developing countries. In that connexion, however, his Government expected solidarity from the recipients of its assistance. In other words, it should have certain guarantees as to raw materials in order that its own material and, above all, energy supplies might be ensured. Private investments could also play a useful

76. The socialist countries always took account of the special situation of the least developed countries and provided them with credits on reasonable terms, as well as outright grants.

77. Their credit relations with the developing countries were always regulated by means of intergovernmental agreements which could be used effectively by the parties as a reliable basis for negotiations on all questions relating to the use and repayment of credits.

78. The socialist countries would continue to co-operate actively in the restructuring of international economic relations on an equitable and democratic basis, taking due account of the special situation of the developing countries in the world economy and of their special needs and problems.

The meeting rose at 1.25 p.m.